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SUBJECT: ARGENTINA: CFK BOOSTED BY LULA, CHAVEZ VISITS, MIXED
MESSAGES ON INVESTMENT AND INTEGRATION

Ref: BUENOS AIRES 1079

Summary

¶1. (SBU) President Cristina Fernandez de Kirchner (CFK) used overlapping August 3-5 visits by Brazil's President Lula and Venezuelan President Chavez to try to regain political momentum. Lula's visit focused on renewed Argentine-Brazilian commercial collaboration following a damaging public divergence in end-game WTO Doha Round negotiations, while Chavez waded directly into Argentine affairs, offering a strong defense of CFK's domestic agenda and promising continuing Venezuelan financial support. Lula and CFK focused on areas of agreement on global trade and opportunities for expanding bilateral trade and investment, though GoA officials gave assurances of protecting sensitive domestic sectors. The last-minute addition of a trilateral heads of state meeting offered mixed messages: flirtation with Chavez's hemispheric agenda, jabs at domestic opponents, and a recognition of Brazil's importance. A planned Chavez-CFK trip to Bolivia to meet President Morales had to be called off, reportedly because of security problems in Bolivia.
End Summary.

Post-Doha Failure Reconciliation

¶2. (SBU) Brazilian President Lula arrived in Argentina the evening of August 3, accompanied by 300-plus business leaders, for a bilateral trade and investment conference that our Foreign Ministry contacts tell us was pulled together in less than a week. GoA contacts admit that the conference was a vehicle designed in the last week to allow Mercosur-bloc leaders Argentina and Brazil to publicly reconcile following sharp differences in positions that emerged at failed Doha Round global trade talks in Geneva (Reftel). There, Brazil had softened its stance against developed nations' agricultural subsidies, but negotiations collapsed when China, India, and others (including Argentina) opposed the deal.

¶3. (SBU) In his opening remarks to the August 4 conference, Lula said: "The frustration of the Doha round demands that we redouble our efforts in other arenas to eliminate distortions and barriers in international trade...Argentina and Brazil can lead the response to those challenges from Mercosur and South America. Together, we can challenge the richest countries on trade." (Earlier that day in a radio address, Lula said world trade talks would continue despite the impasse.) President Cristina Fernandez de Kirchner (CFK), in her conference remarks, argued that, post-Doha, Argentina and Brazil can still work together to promote the interests of developing

countries. "There are moments when we feel that for the first time we are more needed than the developed countries. That should put Argentina and Brazil in synergy, deepening this alliance and this productive model."

Push for Expanded Trade, Bilateral Economic Integration

¶4. (SBU) At the conference, Lula called the strategic alliance between Argentina and Brazil "the backbone" of South America, an alliance that should form the nucleus of a "South American Union of Nations." Lula said that 2008 trade with Argentina may rise to \$30 billion, up from \$24.8 billion in 2007, and that he can imagine a future in which South America's two biggest economies share the same currency. He called the global food crisis a historic opportunity for Argentina and Brazil to be increasingly competitive players in supplying the world's expanding food requirements. Lula argued for deeper economic integration with Argentina, saying stronger ties between the two countries would help boost all South American economies and promising the creation of a sovereign fund to finance Brazilian private sector or Brazilian/Argentine joint venture investment in Argentina. In her remarks, CFK noted that any such process of economic integration must take into account the interests of Argentina's national industries, particularly the sensitive and labor-intensive textile and shoe manufacturing sectors.

¶5. (SBU) In later discussions between GoA and GoB officials, Secretary of Industries Alberto Fraguio praised the bilateral automotive trade regime, but insisted that Argentina's 62-month long - and growing - bilateral trade deficit with Brazil (septel) must be addressed. Fraguio agreed that expanded Brazilian investment in Argentina is desirable and called for increased Argentine

value-added in the bilateral auto trade.

Chavez Joins, Supports CFK, Talks Tripartite Alliance

¶6. (SBU) Venezuelan President Hugo Chavez's participation in the discussions with CFK and Lula was only confirmed at the last minute. Argentina's state news agency Telam announced Mr. Chavez's presence only on August 4, halfway through Lula's official visit to Buenos Aires. Local press described sustained Argentine efforts to convince the Brazilian delegation to agree to the trilateral meeting. Chavez arrived in Buenos Aires the afternoon of August 4 and met with CFK and Lula before Lula returned to Brazil that evening. (Chavez and Fernandez were to travel together August 5 to the southern Bolivian city of Tarija to meet with President Evo Morales on regional energy issues, but the visit was cancelled August 5, reportedly because of security concerns.)

¶7. (SBU) At a ceremony inaugurating a low-income housing project in the Buenos Aires suburb of Almirante Brown, Chavez congratulated CFK for having confronted "the attacks of the oligarchy" in her ongoing battle with the rural agrarian sector over export tariffs. In line with her earlier August 2 press conference comments justifying the GoA's conflict with the rural sector in the name of needed income redistribution, CFK followed Chavez to the podium arguing that "those in sectors that are growing and have more wealth have no right not to see that, by giving a little, they help those who, alone, cannot escape poverty."

¶8. (SBU) Chavez, in airport discussions with local media, celebrated the increasingly close relationship between Venezuela, Brazil, and Argentina: "We have revived the process of forming a tripartite alliance that is based on what we have for several years been calling the main axis of South America: Caracas-Brasilia-Buenos Aires," he said. Such an axis, he said, is capable of countering Europe and the United States, and able to help meet the world's rising demand for food. Chavez added that his country "already felt part of Mercosur," though ratification of Venezuela's full membership remains pending from the Brazilian and Paraguayan parliaments.

¶9. (SBU) On Argentina-specific issues, Chavez told local media he considered himself a "true Peronist," that Venezuela was "disposed"

to purchase additional Argentine sovereign debt (beyond the \$6.6 billion the GoV has purchased since 2005), and that GoV discussions with Argentina's Techint Group on appropriate compensation for the GoV's forced nationalization of Techint's SIDOR steel plant were going so well that the issue was not even raised in his discussions with CFK. (This was not the description Techint's CEO gave the Ambassador earlier August 4.) Chavez also told local media that his earlier proposal to build a 5,000-mile Caracas-to- Buenos Aires natural gas pipeline (Gasoducto del Sur) at an estimated cost of \$23 billion should be reconsidered. "I think it is the moment to bring that back," he said. Chavez added that the three heads of state would meet again in Brazil's Pernambuco city on September 6 and that they had agreed that joint state companies should be created in the oil and energy sectors. GoA Ambassador to Caracas, Alicia Castro, told local media that the three countries were considering creation of a regional air carrier (only two weeks after the GoA announced the state takeover of flagship carrier Aerolineas Argentinas) as well as a railway linking Caracas and Buenos Aires, "a dream that today appears utopian."

Comment

¶10. (SBU) It appears that CFK tried to use Lula and Chavez's visits to bolster her beleaguered public image. The Lula/CFK trade and investment conference was also broadly viewed as a hastily arranged kiss-and-make-up affair to ease intra-Mercosur tensions generated during heated Doha end-game negotiations. Lula himself summed up the overriding rationale in his conference address: "We often lose time in internal fights without realizing that this suffocates growth." The new initiatives announced, including sovereign funds to promote Brazilian investment in Argentina and cooperation between the two nations' state-owned development banks, appear vague and ad hoc. Neither Lula nor CFK used their remarks to criticize the U.S. Lula talked about calling President Bush on trade issues and CFK publicly recognized the presence of the Ambassador during her speech.

¶11. (SBU) Chavez's last-minute participation and discussion of a "tripartite alliance" added political color but little economic substance to discussions. Media focused on his political support of CFK in the aftermath of her Senate defeat on the export tariff issue and his hints that Venezuela is willing to purchase additional GoA sovereign debt. This was followed by a statement by GoA Finance Secretary that Argentina would have no trouble meeting its 2008 financing needs but that the GoA "had not discarded" the possibility of additional borrowing from Venezuela this year. Chavez's participation may have muddled the Casa Rosada's message of returning to more constructive politics in which fundamental issues like Argentine-Brazil trade and investment would supersede ideological agendas. The planned August 5 Chavez-CFK trip to Bolivia to meet President Morales had to be called off because of security problems, but CFK got her photo with Chavez and Lula on the front pages of many Buenos Aires dailies.

WAYNE